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Message Text

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11
ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 OMB-01 STR-04 CEA-01 PA-02 PRS-01 /068 W
---------- 017807
R 170650Z AUG 76
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 1620
AMCONSUL NAHA
AMCONSUL OSAKA KOBE
AMCONSUL FUKUOKA
AMCONSUL SAPPORO

UNCLAS SECTION 1 OF 2 TOKYO 12364

E.O. 11652: N/A
TAGS: BENC, JA
SUBJECT: JAPANESE MINISTRIES PLANNING PROGRAMS TO ASSIST JAPANESE FIRMS INLARGE OVERSEAS PROJECTS

REF: STATE A-3608, 7/21/76 (NOTAL)

1. SUMMARY: OFFICIALS OF MINISTRY OF CONSTRUCTION (MOC) AND MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY(MITI) CONFIRM THAT THEIR MINISTRIES ARE DEVELOPING PLANS TO ASSIST JAPANESE FIRMS IN MEETING HUGE PERFORMANCE BONDING REQUIREMENTS ASSOCIATED WITH LARGE CONSTRUCTION AND PLANT DEVELOPMENT PROJECTS OVERSEAS. HOWEVER, BECAUSE MINISTRIES DISAGREE ON FORM OF ASSISTANCE TO BE PROVIDED TO CONSTRUCTION FIRMS, AND BECAUSE OF UNCERTAINTY REGARDING HOW MUCH BUDGETARY ASSISTANCE MINISTRY OF FINANCE (MOF) PREPARED TO ALLOT, IT IS DIFFICULT TO PREDICT NOW WHAT WILL ULTIMATELY BE INCLUDED IN BUDGET FOR FY 1977 (BEGINNING APRIL 1, 1977). GIVEN EXISTING BROAD SUPPORT FOR SOME GOJ ACTION ALONG THESE LINES, IT SEEMS VERY LIKELY SOME KIND OF BOND GUARANTEE OR INSURANCE PLAN FOR OVERSEAS PROJECTS WILL BE INCLUDED IN BUDGET PRESENTATION AND PASSED BY DIET
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FOR INITIATION IN FY 1977, THOUGH TIMING WILL DEPEND ON

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EVENTS IN BROADER POLITICAL SCENE. END SUMMARY.

2. DURING PAST TWO MONTHS THERE HAVE BEEN LARGE NUMBER OF ARTICLES IN JAPANESE PRESS, SIMILAR TO THOSE MENTIONED IN REFAIR, REPORTING ON VARIOUS PROGRAMS BEING PLANNED BY MOC AND MITI TO ASSIST JAPANESE FIRMS IN PARTICIPATING IT LARGE INDUSTRIAL PLANT DEVELOPMENT AND CONSTRUCTION PROJECTS ABROAD. BULK OF THESE ARTICLES HAVE DEALT WITH MOC BOND GUARANTEE FUND AND MITI BOND INSURANCE PROGRAM, BOTH OF WHICH ARE INTENDED TO ASSIST JAPANESE FIRMS IN MEETING THE HUGH PERFORMANCE BONDS REQUIRED ON LARGE INDUSTRIAL PROJECTS ABROAD. MITI AND OC OFFICIALS WITH WHOM EMBASSY OFFICERS HAVE DISCUSSED THESE REPORTS CONFIRM THAT BOTH MINISTRIES ARE ACTIVELY DEVELOPING BOND GUARANTEE ASSISTANCE PROGRAMS AS WELL AS OTHER ACTIVITIES RELATED TO OVERSEAS PROJECTS WHICH THEY HOPE MOF AND CABINET WILL INCORPORATE INTO FY 1977 BUDGET. HOWEVER, THESE OFFICIALS CLAIM THAT DETAILS OF THESE PROGRAMS ARE NOT AS FULLY WORKED OUT AS SUGGESTED IN MANY PRESS REPORTS AND THAT THE MINISTRIES ARE NOT YET READY TO PRESENT PLANS FORMALLY TO MOF. FURTHERMORE, REMARKS OF THESE OFFICIALS MAKE IT CLEAR THAT THE TWO MINISTRIES DO NOT SEE EYE-TO-EYE ON HOW BOND GUARANTEE ASSISTANCE SHOULD BE PROVIDED TO CONSTRUCTION FIRMS.

3. MITI PLAN: BASIS OF MITI PLAN WOULD BE REVISION OF EXISTING EXPORT INSURANCE LAW TO PROVIDE INSURANCE COVERAGE FOR BONDING ASSOCIATED WITH LARGE CONSTRUCTION OR INDUSTRIAL PLANT PROJECTS ABROAD. LIKE EXISTING EXPORT INSURANCE PROGRAM, BOND INSURANCE WOULD BE ADMINISTERED BY MITI AND WOULD COVER ALL TYPES OF OVERSEAS PROJECTS INCLUDING THOSE INVOLVING ONLY CONSTRUCTION FIRMS. PLAN WOULD BE ESTABLISHED WITH GOJ FUNDS BUT WOULD BE SELF-FINANCING WITH PREMIUM PAYMENTS. PREMIUM RATES AND COVERAGE LIMITS HAVE NOT YET BEEN FULLY WORKED OUT BY MITI.

4. MOC PLAN: MOC OFFICIALS ARE OPPOSED TO INCLUDING OVERSEAS ACTIVITIES OF JAPANESE CONSTRUCTION FIRMS UNDER BROAD BOND INSURANCE PLAN PROPOSED BY MITI AND WOULD
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PREFER A SPECIAL PROGRAM AIMED AT ASSISTING SOLELY THE CONSTRUCTION INDUSTRY. TO DO THIS, THEY ARE PROPOSING THE ESTABLISHMENT OF "AN OVERSEAS CONSTRUCTION ASSOCIATION". TO BE FINANCED 50 PERCENT BY GOJ AND 50 PERCENT BY PRIVATE SECTOR (BANKING, INSURANCE, AND CONSTRUCTION FIRMS) WHICH WOULD PROVIDE GUARANTEES FOR PART OF THE COSTS INCLURRED BY CONSTRUCTION FIRMS IN OBTAINING PERFORMANCE BONDS FOR LARGE OVERSEAS CONSTRUCTION PROJECTS. ACCORDING TO

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MOC OFFICIALS, ALL DETAILS HAVE NOT BEEN WORKED OUT,
BUT APPARENTLY GUARANTEE FUND WOULD INITIALLY TOTAL
$33 MILLION.

5. THOUGH MOC OFFICIALS OBVIOUSLY DO NOT BAY SO, MOC
OPPOSITION TO MITI PLAN IS PROBABLY INLARGE PART DUE
TO FACT IT WOULD ALLOW MITI TO WIELD CONSIDERABLE
INFLUENCE OVER CONSTRUCTION INDUSTRY WHICH MOC CONSIDERS
ITS OWN FIEFDOM. MOC COULD EXPECT TO CONTROL ACTIVITIES
OF ITS PROPOSED "ASSOCIATION". FURTHERMORE, CONSTRUCTION
INDUSTRY ITSELF MAY ALSO PREFER NOT TO HAVE PROGRAM
ADMINISTERED BY MITI WHICH MAY BE INCLINED
TOWARD INTERESTS OF OWN CLIENTELER, NAMELY
MANUFACTURING AND ENGINEERING FIRMS. (IN PAST SOME MITI
OFFICIALS WERE KNOWN TO HAVE BEEN OPPOSED TO USING LIMITED
EXPORT-IMPORT BANK FUNDS TO FINANCE OVERSEAS CONSTRUCTION
ACTIVITIES.) REMARKS OF MOC OFFICIALS SUGGEST THAT THEY
ARE ATTEMPTING TO BLOCK ANY REVISION OF EXPORT INSURANCE
LAW RATHER THAN HAVING CONSTRUCTION FIRMS EXCLUDED FROM
MITI PLAN. MITI OFFICIALS AY IT IS UNLIKELY MOF WILL BE
PREPARED TO ACCEPT BOTH PLANS, THOUGH THEY ARE NOT
PREPARED TO PREDICT HOW THIS CONFLICT WILL BE RESOLVED.
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INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

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6. OTHER PROPOSALS WHICH ARE BEING CONSIDERED BY THESE MINISTRIES AND WHICH MAY BE SUBMITTED TO MOF INCLUDE THE FOLLOWING:

MITI
- ESTABLISHMENT OF "ENGINEERING PROMOTION ASSOCIATIION" WHICH COULD HELP ENGINEERING FIRMS COVER COSTS OF PRE-BID SURVEYS AND PROVIDE TRAINING PROGRAMS IN FIELD OF PROJECT MANAGEMENT, ETC. FOR SUCH FIRMS.
- REQUEST FOR ADDITIONAL JAPAN EXPORT-IMPORT BANK FINANCING FOR PLANT EXPORTS. (PLANT DEFINED AS EQUIPMENT VALUED AT $500,000 OR MORE, EXCLUDING SHIPS). IN THIS YEAR'S BUDGET/ EX-IM'S PLANT FINANCING FACILITIES WERE ALREADYINCREASED FROM $757 MILLION TO $1,250 MILLION.

MOC
-UNDER UMBRELLA OF OVERSEAS CONSTRUCTION ASSOCIATION, MOC WOULD LIKE TO SEE CONSTRUCTION FIRMS DEVELOP INDEPENDENT MUTUAL ASSISTANCE PROGRAM WHICH WOULD REIMBURSE PART OF SURVEY AND OTHER PRE-BID EXPENSES OF CONSTRUCTION FIRMS WHICH ULTIMATELY LOSE BIDS. UNDER UNCLASSIFIED

PLAN, SUCCESSFUL BIDDERS WOULD CONTRIBUTE TO FUND TO KEEP IT SELF-SUBSTAINING.

7. EMBASSY OMMENT: THOUGH IT IS NOT POSSIBLE TO PREDICT THE FORM OR SCOPE OF A PERFORMANCE BOND GUARANTEE OR INSURANCE PROGRAM TO BE WORKED OUT IN GOJ BUREAUCRACY DURING NEXT FEW MONTHS, EMBASSY BELIEVES THAT IT IS VERY LIKELY THAT SOME KIND OF PROGRAM ALONG THESE LINES WILL ULTIMATELY BE INCLUDED IN THE BUDGET,PASSED BY THE DIET AND BECOME OPERATIVE DURING FY 1977. (TIMING OF ALL THIS WILL DEPEND OF COURSE ON EVENTS IN THE BROADER PLITICAL SCENE, I.E., THE LDP LEADERSHIP STRUGGLE, THE DIET ELECTIONS ETC.) THE LARGE NUMBER OF PRESS ITEMS POINTING OUT THE NEED FOR BOND GUARANTEE AND OTHER PROGRAMS TO ASSIST JAPANESE FIRMS IN OVERSEAS PROJECTS REFLECT THE STRONG SUPPORT THAT EXISTS IN THE BUREAUCRACY AS WELL AS IN BUSINESS CIRCLES--BOTH THE KEIDANREN AND JAPAN FOREIGN TRADE COUNCIL PASSED RESOLUTIONS CALLING ON THE GOJ TO INITIATE BOND GUARANTEE PROGRAMS. APPARENTLY REFLECTING HIGH-LEVEL LDP SUPPORT, A JULY 23 MEETING OF THE FOREIGNCOOPERATION MINISTERIAL MEETING, CHAIRED BY DEPUTY PM FUKUDA, ENDORSED THE IDEA OF A PERFORMANCE BOND GUARANTEE PROGRAM AND INSTRUCTED THE MINISTRIES TO CONTINUE THEIR STUDIES. (MEETING REPORTEDLY DID NOT ADDRESS DIFFERENCES IN THE VARIOUS

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PLANS.) BECAUSE OF STRONG BUSINESS SUPPORT, IT IS LIEKLY
THAT ALL LDP FACTIONS WOULD BE PREPARED TO FAVOR CREATION
OF GUARANTEE PROGRAM OF SOME KIND ONCE THE MINISTRIES
HAVE RESOLVED THEIR DIFFERENCES. EMBASSY WILL
CONTINUE TO EPORT ON THIS SUBJECT AS GOJ PLANS
DEVELOP.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 17 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TOKYO12364
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760315-0051
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760845/aaaabmqf.tel
Line Count: 230
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 STATE A-3608
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 08 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 APR 2004 by ReddocGW>; APPROVED <05 JAN 2005 by CunninFX>
Review Markings:

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Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: JAPANESE MINISTRIES PLANNING PROGRAMS TO ASSIST JAPANESE FIRMS INLARGE OVERSEAS PROJECTS
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NAHA
Type: TE
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